ANNUAL REPORT 2003

Nova Scotia **Business** Inc.

NEW BUSINESS THINKING

BUSINESS FOCUSED, OPPORTUNITY DRIVEN

TABLE OF CONTENTS

MESSAGE FROM THE CHAIR 1

MESSAGE FROM THE PRESIDENT AND CEO . . 2

PERFORMANCE REPORT CARD 4

BUSINESS ATTRACTION 6

EXPORT DEVELOPMENT 8

BUSINESS ADVISORY TEAM 10

FINANCIAL SERVICES 12

PARTNERSHIP AND PROMOTION 14

OUR EMPLOYEES 15

CORPORATE GOVERNANCE 16

FINANCIAL STATEMENTS OF
NOVA SCOTIA BUSINESS INCORPORATED . . 18

AUDITORS' REPORT TO THE DIRECTORS . . . 18

BALANCE SHEET 19

STATEMENT OF REVENUE, EXPENDITURES
AND RETAINED EARNINGS 20

STATEMENT OF CASH FLOWS 21

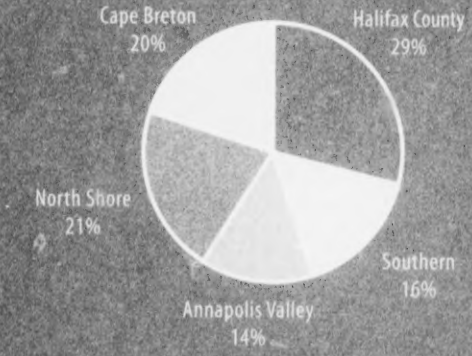
NOTES TO FINANCIAL STATEMENTS 22

SCHEDULE OF OPERATING EXPENSES 27

SCHEDULE OF
NOVA SCOTIA BUSINESS FUND EXPENSES . . 27

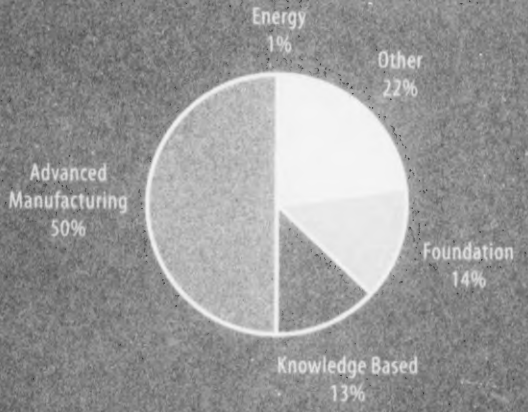
Nova Scotia Business Inc.'s (NSBI) mission is to deliver client-focused business solutions that result in sustainable, value-added economic growth for Nova Scotia.

NSBI CLIENTS BY REGION



NSBI reaches out to clients in all regions of the province in order to generate economic growth. From Sydney to Yarmouth, NSBI provides financing and export development assistance to help companies – large and small – expand business opportunities.

NSBI CLIENTS BY SECTOR



NSBI's business development activities are focused on sectors that continue to demonstrate growth potential for the province. The majority of NSBI's clients are concentrated in advanced manufacturing and knowledge based industries, including life sciences and information technology. NSBI also supports clients operating in resource-based foundation industries.

MESSAGE FROM THE CHAIR

The concept for Nova Scotia Business Inc., a private-sector led business development agency, was first introduced in 2000, with the release of *Opportunities for Prosperity*, the province's economic growth strategy. In November 2001, NSBI became fully operational and officially embarked on its mission: to encourage economic growth throughout the province by helping existing businesses expand and attracting new investment to Nova Scotia.

NSBI's strategy grew from contact with businesses, investors and partners, from best practices and from independent research into the attitudes and expectations of business people in Nova Scotia. Nova Scotia Business Inc. is an organization built to be both responsive and proactive – responsive to the needs of businesses throughout the province, and proactive in identifying opportunities for growth that exist within Nova Scotia and outside our provincial borders.

Through its efforts and the success of its clients, NSBI aims to strengthen the economy of Nova Scotia and improve opportunities available to all Nova Scotians. NSBI provides tailored solutions to companies by fulfilling specific business needs that help businesses grow. As the main point of contact for businesses in the province, NSBI plays a catalytic role, bringing together partners, information and financial solutions that are client-specific.

NSBI has been successful in meeting its objectives over the past year because it remained focused and results-oriented. The organization continued to work closely with businesses from a wide variety of industry sectors including life sciences, information technology, learning, energy and advanced manufacturing – sectors which represent significant growth potential for the province.

A private sector-oriented board of 13 directors guides the efforts of NSBI and plays an integral role in maintaining a strong governance structure. These successful business leaders and entrepreneurs understand through experience what makes a business strong, vibrant and successful. One of their first tasks was to help NSBI develop a five-year strategic plan which has created the foundation for *New Business Thinking* and the development of annual business plans.

I am privileged to work with such a dedicated Board and would like to thank them sincerely for their commitment and support during the past year. I would especially like to acknowledge the Chairs of the Investment Committee, Human Resources Governance Committee and Audit Committee, who have made significant contributions over the past year and welcome our newest Board member, Paul Kent, Senior Vice-President, Fujitsu Consulting.

On a personal note, I am proud to be associated with this dynamic and action-oriented organization. Although still relatively new, NSBI has proven its ability to achieve results while demonstrating accountability, managing risk, generating a return on investment, and creating an organizational culture that supports entrepreneurial thinking and professionalism. Ultimately, NSBI's success translates into increased employment and economic benefits for all Nova Scotians.

F. Thomas Stanfield
Chair

104-01575/

MESSAGE FROM THE PRESIDENT AND CEO

I am pleased to report on the activities of NSBI during its first full fiscal year – a year of accomplishment and action which solidly positioned the organization for the future. Our results highlight NSBI's role as a new provincial agency – business focused and opportunity driven.

At NSBI, we believe that strong businesses create a strong economy. Our mission is to deliver client-focused solutions that will help businesses grow successfully in our province and, in turn, generate lasting economic benefits. We achieve this by helping companies increase export activity, providing financing for growth and attracting new investment to the province. NSBI's operating philosophy is straightforward – we make decisions that make good business sense and adhere to the principles of accountability and consistency. NSBI targets businesses that are growth-oriented, innovative, viable and sustainable – businesses with the potential to contribute to economic growth.

Partnerships are critical to NSBI's operation. Throughout the year, NSBI collaborated closely with both public and private sector partners as well as industry associations to leverage funds, create innovative client solutions and undertake industry specific research.

BUSINESS RESULTS

A strong Nova Scotia economy starts at home. During the year, we met with more than 470 businesses and business leaders as well as public and private sector partners throughout the province to identify areas where we could add value and facilitate growth. This feedback, and the results of independent research, enabled NSBI to validate strategic direction, develop new services to meet identified business needs, and establish benchmarks for continued measurement. The study also highlighted a key concern for businesses – access to capital – as well as their plans to increase sales by introducing new products and services in export markets.

NSBI began to address the access to capital issue by introducing new initiatives including *The Capital Ideas Roadshow* – a seven-stop province-wide seminar highlighting private and public sector sources of capital for business owners. NSBI also announced the development of a small business lending program for the next fiscal period. In addition, the Financial Services group authorized $13.6 million in financing for 17 Nova Scotian companies during this fiscal year.

To further help businesses tap into global markets, NSBI refined its export strategy, and launched *Export Prospector*, a new service which helps clients identify sales leads or strategic partners in their specific export markets. In addition, the export development team organized more than 25 trade events with over 460 participants and by the end of the fiscal year, had assisted 113 export clients. Nearly two thirds of all NSBI clients said they had increased their export sales by more than 50% during the fiscal year. NSBI also organized the 18th annual Export Achievement Awards which pay tribute to Nova Scotia's most successful exporters and encourage more Nova Scotian entrepreneurs to increase export activity.

Sustained economic growth also requires new investment – investment from outside provincial borders. Increasingly, corporations are evaluating investment decisions on a global basis. Geography is less a barrier today than in the past as companies look internationally for solutions that can enhance their growth and drive added value for shareholders. The business attraction team actively pursued opportunities that fit strategically with provincial strengths. During the fiscal year, NSBI attracted new investment from seven companies looking to relocate or expand their existing facilities in Nova Scotia and supported their commitments through $29.4 million in payroll rebates.

To be successful, Nova Scotia needs to continue to raise awareness of its key attributes and business environment abroad. During the year, we continued to expand upon our historic connections with New England, particularly in the knowledge-based and energy sectors. NSBI also created a Toronto Business Advisory Council to leverage

the knowledge, expertise and contacts of a distinguished group of business people with an affinity for the province.

NSBI's Business Advisory Team, located in six regions throughout the province, continued their business visitation program, positioning themselves as the primary contacts for NSBI in their communities and a central source of information for businesses. NSBI also launched the Regional Business Case Analysis project to better understand local priorities related to investment attraction and the assets of rural communities throughout Nova Scotia.

Job creation and employment retention are important economic indicators of client-related activity. NSBI's clients are responsible for creating or maintaining over 4,000 jobs throughout the province.

Further, for every dollar of NSBI financing provided to clients, another $1.33 was leveraged by other financing institutions. NSBI also maximized operating efficiency and cost effectiveness by completing the fiscal year within its $6.6 million operating budget allocation.

ECONOMIC SNAPSHOT

Fiscal 2002/2003 was characterized by global economic uncertainty due to the weakness in the US economy and its potential effects on the Canadian economy. Yet, despite global economic concern, NSBI's fall 2002 study found a high degree of optimism among Nova Scotia businesses – 92% were optimistic about the three-year business outlook for Nova Scotia.

However, by the end of the fiscal year, global factors including the war in Iraq, the SARS outbreak and a rapidly appreciating Canadian dollar began to take their toll on the Canadian and Nova Scotian business climates. Without a long-term exchange rate that creates a labour cost advantage, Canadian and Nova Scotian companies will need to focus carefully on their operations to ensure long-term, sustainable competitiveness.

LOOKING AHEAD

In the event that economic shifts threaten the province's competitiveness, NSBI will identify opportunities to support the continued growth and productivity of existing Nova Scotia businesses. As NSBI heads into the next fiscal year, we will continue to focus on identifying and developing business opportunities within Nova Scotia's strategic sectors. Business attraction efforts will target companies that create opportunities not only for significant numbers of jobs, but for high quality, sustained employment. NSBI will also consider developing new financial tools to attract business investment and to support existing companies while respecting the principles of accountability, incremental growth and generating a net economic benefit.

Developing an action-oriented, client-focused culture will continue to be a priority for NSBI. To be successful, NSBI needs to continue to encourage, empower and support high performance, entrepreneurial thinking and professionalism. Our goal is to maintain or improve satisfaction with NSBI as an employer and to ensure that staff continue to believe the work they do at NSBI is important.

Delivering quality customer service will continue to be an area of emphasis for next year. NSBI's goal will be to maintain the benchmark established in the past fiscal year – 90% of clients with a favourable opinion of NSBI.

I look forward to the next fiscal year with great anticipation – knowing that we can count on our many partners, our Board of Directors and NSBI employees for their continued support, collaboration and expertise. But most importantly, I would like to thank NSBI employees for their hard work throughout this past year. They are unparalleled in their commitment to NSBI and to Nova Scotia and I am proud to work with them. Economic health and prosperity – now and in the future – are in good hands.

Stephen E. Lund
President and CEO

PERFORMANCE REPORT CARD

MEASURING RESULTS

NSBI REGULARLY TRACKS ITS PROGRESS TOWARDS ACHIEVING RESULTS THROUGH ITS CORPORATE SCORECARD – A MANAGEMENT TOOL THAT TRANSLATES CORPORATE TARGETS INTO DEPARTMENTAL AND INDIVIDUAL OBJECTIVES – AND ULTIMATELY – RESULTS. BY THE END OF THE FISCAL YEAR, NSBI HAD EITHER MET OR EXCEEDED THE CORPORATE TARGETS ESTABLISHED IN THE 2002-2003 BUSINESS PLAN.

Promote the growth of new and existing businesses in Nova Scotia by enabling them to export and expand business opportunities in both local and export markets.

MEASURE	FINAL 02-03	TARGET 02-03	TARGET 03-04
# of company meetings to identify opportunities or potential barriers to expansion	473	400	500
# of clients assisted that increase export sales	113	100	110

Attract leading edge and sustainable business to Nova Scotia

# of companies that relocate part or all of their business in Nova Scotia/ new investment attraction	7	5	8
# of Strategic Investment Funds (SIF) commitments	15	12-15	15-18

Provide access to capital for new/existing businesses in Nova Scotia to enhance value-added growth for the province's economy

# of financings with new/existing companies utilizing Nova Scotia Fund	17 $13.6 million	15	20
% of NS fund used for equity/working capital transactions	22.3%	20 - 25%	20 - 25%
Leverage ratio of Partner: NSBI	1.33:1	1:1	1:1

Increase the visibility and recognition of Nova Scotia – its business climate, advantages and capabilities – here and abroad

MEASURE	FINAL 02-03	TARGET 02-03	TARGET 03-04
# of presentations on Nova Scotia's business strengths to companies, prospects and organizations in the US marketplace/targeted companies	140	60	75
% increase over base measure of awareness of NSBI (very or somewhat familiar with NSBI)	Baseline established: 18% general public 24% business	Establish baseline	+2%

Develop an action-oriented, client-focused organizational culture that encourages, empowers and supports high performance, entrepreneurial thinking, and professionalism

% increase of clients who are satisfied with NSBI's services	Baseline established: 90% client satisfaction	Establish baseline	5% *
% of employees participating in training and development programs	73%	50%	80%
Operate within annual budget	$6.6 million	$6.6 million	$6.8 million

* 2002/2003 Business Plan targeted a 5% increase prior to the establishment of the baseline. NSBI will aim to maintain this high level of satisfaction.

BUSINESS ATTRACTION

STRATEGIC GOAL

ATTRACT LEADING-EDGE, SUSTAINABLE BUSINESS TO NOVA SCOTIA THAT WILL GENERATE LASTING ECONOMIC BENEFITS FOR THE PROVINCE.

Strong Business Case, Strategic Focus

65% of businesses believe attracting new businesses to the province is critical to growing the economy.*

* NSBI commissioned survey of businesses and public, fall 2002.

One way to encourage economic growth is to broaden the business base through external investment. In fact, according to NSBI's research on economic attitudes, almost two thirds of Nova Scotia businesses surveyed said that new businesses from outside the province are needed to strengthen the economy. The broader the business base, the greater the opportunity for increased employment, increased tax revenue and increased local business spin-off activity.

Generating a healthy return on investment is the underlying principle of NSBI's investment attraction efforts. NSBI understands that the province's business climate and inherent strengths offer a compelling reason for the right companies to increase shareholder value by operating in our province.

However, attracting new business to Nova Scotia is a competitive endeavour. Many jurisdictions world-wide vie for the same opportunities because they, too, understand the value of the associated economic spin-offs. Therefore, NSBI has established a targeted, aggressive approach to business attraction. Our goal is to identify the companies with the greatest opportunity for success and long-term sustainability – companies that fit NSBI's target sectors: energy, information technology, life sciences, advanced manufacturing and learning industries.

Over the past fiscal year, NSBI completed extensive research on the province's business case and developed a strong value proposition – particularly for companies considering opportunities in IT, life sciences and energy. The business case demonstrates the competitive advantages of operating in Nova Scotia including: the province's inherent strength in education, affordable business costs, solid infrastructure, a talented workforce and unrivaled quality of life.

NSBI also created a strong business attraction team to market these attributes beyond provincial borders, target solid prospects and develop customized client solutions. The team became adept at marshalling local partners' resources and expertise to meet a wide variety of client needs – from proposing recruitment and location options to identifying business professionals and financing sources.

As a result, NSBI encouraged new business investment from seven companies into the province during the fiscal period. One of the tools utilized to help offset a portion of the costs associated with establishing a new operation in the province or expanding an existing one is the payroll rebate. A payroll rebate is a performance-based investment that is paid to companies as they achieve pre-determined milestones over a period of time, usually five to seven years. Last year, NSBI approved $29.4 million in payroll rebate commitments to seven companies.

NSBI administers all payroll rebate commitments made to companies utilizing the Province's Strategic Investment Funds (SIFs). Payroll rebates are just that – strategic investments that create tangible returns for the Province: SIF clients generate more direct taxes than the amount paid to them in payroll rebates. As a result, surplus revenue is generated for the Province. The projected surplus revenue for 2003/04 is $6.4 million – which is roughly equivalent to NSBI's operating budget. Based on current commitments, this surplus is expected to grow to $17 million by 2008. The Return on Investment for fiscal 2003/04, the first year which incorporates NSBI business attraction activity, is 32.6% – in other words, for every dollar of payroll rebate outlay, the Province will receive $1.30 in direct tax revenue.

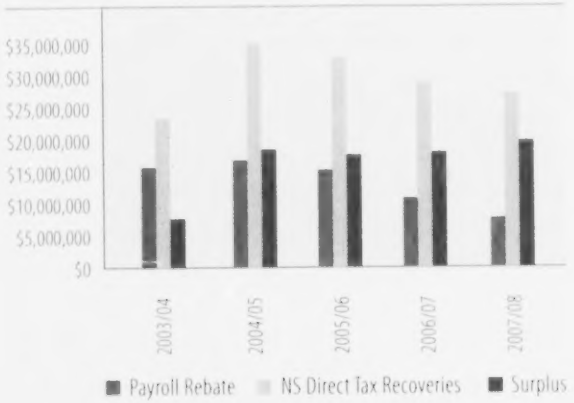
ACTIVITY HIGHLIGHTS

- Met with more than 140 prospects considering Nova Scotia for business expansion.
- Seven new company investments into the province.
- Administered 15 Strategic Investment Fund (SIF) commitments.
- Targeted prospects in key markets including: Boston, Washington, New York, San Francisco and Toronto.
- Launched a near shore outsourcing initiative to market Nova Scotia's advantages in software development to key target markets.

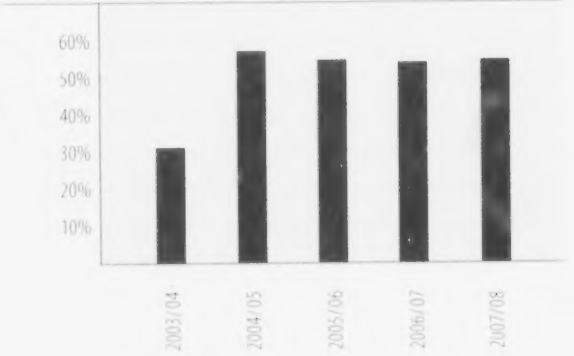
STRATEGIC INVESTMENTS APPROVED:

XEROX CANADA	$ 1,600,000
SERVICE ZONE	8,000,000
	6,500,000
CONVERGYS CUSTOMER MANAGEMENT CANADA INC.	
TELETECH HOLDINGS INC.	11,796,125
DOPPELGANGER CANSO INC.	470,000
SYDNEY IT CHRONICLES INC.	490,000
XEROX CANADA	650,000

STRATEGIC INVESTMENTS CREATE A HEALTHY SURPLUS



STRATEGIC INVESTMENT FUND – ROI ANALYSIS



An educated workforce and a low cost of doing business was key for Xerox Canada Ltd. when the company was looking for a location for its Teleweb/Welcome Centre. The company looked at many locations but the hard work and persistence of NSBI staff ensured that Nova Scotia was front and centre in their decision-making process. Xerox Canada Ltd. chose Dartmouth for expansion over many other Canadian locations.

EXPORT DEVELOPMENT

STRATEGIC GOAL

PROMOTE THE GROWTH OF NEW AND EXISTING BUSINESSES IN NOVA SCOTIA BY ENABLING THEM TO IDENTIFY NEW BUSINESS OPPORTUNITIES IN BOTH LOCAL AND EXPORT MARKETS.

Tailored Services, Strategic Markets

57% of Nova Scotians believe that export expansion is key to strengthening the provincial business environment.*

62% of NSBI clients increased their export sales over the previous year.**

* NSBI commissioned survey of businesses and public, fall 2002.
** NSBI Customer Service Survey, 2002/2003.

A strong Nova Scotia economy starts at home – and that strength depends on a successful export market. More than half of all Nova Scotians and businesses believe export expansion is key to strengthening our economic base. Although the province has experienced a trade surplus during 2002, provincial export activity as a percentage of GDP still lags behind the majority of Canadian provinces.

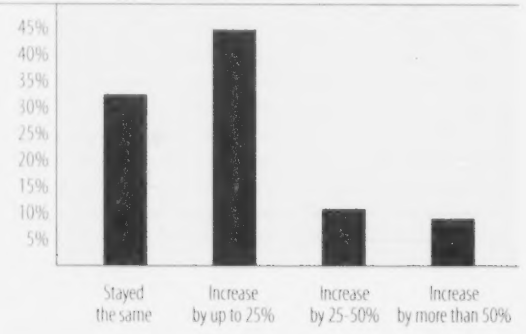
The United States has clearly and consistently remained Nova Scotia's principal trading partner; approximately 80% of Nova Scotia exports are destined for the US – primarily to markets that stretch along the eastern seaboard. The vast majority of the province's export base consists of tires, as well as natural resource products such as gas, fish, wood, pulp and newsprint.

However, untapped potential remains in other industry sectors. One of NSBI's priorities for the fiscal year was to unlock that potential by developing and implementing a new export development strategy. Following extensive research on the exporting needs of small and medium-sized businesses, NSBI introduced a more client-centric direction for its export development services. The new strategy complements the activities of other trade partners including Industry Canada, Trade Team Nova Scotia and ACOA by focusing on an under-served niche – market entry support.

During the past year, NSBI has been helping clients, one-on-one, to identify value-added export opportunities and diversify their export markets. NSBI launched two new export services: pilot testing is underway for *Export Prospector* which helps companies to identify and close sales in their specific target markets and *Showstorm* which helps companies obtain competitive intelligence from trade shows related to their industry sectors.

A provincial trade coordinator was also appointed to enhance communication with provincial trade partners and coordinate provincial export activity. For example, NSBI and the Department of Tourism and Culture cooperated on a Boston promotion on board the high speed "CAT" that travels between Yarmouth and Bar Harbor, Maine, to highlight business and tourism opportunities in Nova Scotia. The export development group also coordinated more than 25 export events with over 460 participants during fiscal 2003, while shifting focus towards activities aligned with the strategic growth sectors.

% OF NSBI CLIENTS WHO INCREASED EXPORT SALES OVER THE PAST YEAR



Recent global events prompted the United States to create a Department of Homeland Security. With the new organization came a need for the procurement of technology that would protect the United States from future terrorist attacks.

In February, NSBI led an export development contingent of five Nova Scotian companies to the Armed Forces Communications and Electronics Association (AFCEA) Homeland Security Conference and Trade Show in Washington, D.C. One of those companies was Preclarus Technologies Inc. of Truro.

" Preclarus Inc. was very pleased and encouraged with the opportunity to participate in NSBI's export development initiative. Timing for the Washington event was in step with both our marketing and export business plans. By taking part in the AFCEA project, we recognized that being involved on a first hand basis and across the desk from decision makers does make all the difference. Canadian exports are a valuable asset in the American marketplace. Our experience proves that."

David F. Orr
VICE-PRESIDENT BUSINESS DEVELOPMENT,
PRECLARUS TECHNOLOGIES INC.

ACTIVITY HIGHLIGHTS

- Assisted 113 export clients.
- Launched Export Prospector pilot project to help 17 companies identify leads and secure deals in their specific target markets including New York, Boston, Alberta and South Carolina.
- Led five companies to Washington, D.C., for a Safety and Security Sales and Development Initiative, resulting in anticipated sales of $5 million.
- Organized the 18th annual Export Achievement Awards in cooperation with the Canadian Manufacturers & Exporters Association (Nova Scotia) with over 400 participants.
- Coordinated Nova Scotia's participation in a Trade Team Atlantic mission to New York where seven Nova Scotia companies pursued sales opportunities.

BUSINESS ADVISORY TEAM

Sound Advice, Solid Opportunities

60% of NovaScotians believe that helping business grow is a strategically important economic initiative

STRATEGIC GOAL

ACTIVITY HIGHLIGHTS

BAT (Business Advisory Team) Territories

BUSINESS ADVISORY TEAM

Sound Advice, Solid Opportunities

60% of Nova Scotians believe that helping business grow is a critically important economic initiative.*

* NSBI commissioned survey of businesses and public, fall 2002.

STRATEGIC GOAL

PROMOTE THE GROWTH OF NEW AND EXISTING BUSINESSES IN NOVA SCOTIA BY ENABLING THEM TO IDENTIFY BUSINESS OPPORTUNITIES IN LOCAL AND EXPORT MARKETS.

Strong, stable businesses build a healthy Nova Scotia economy. A recent NSBI survey found that two-thirds of business leaders in Nova Scotia believe helping existing businesses grow is a critically important economic initiative. NSBI's Business Advisory Team is working with companies throughout the province to find ways to help them successfully increase their exports and expand their market base.

The Business Advisory Teams are economic development professionals located throughout the province in six locations from Cape Breton to Yarmouth. The team provides practical support to businesses in their own communities. Business Advisors have established themselves as the single point of contact for businesses looking for referrals to services and programs from NSBI and other organizations.

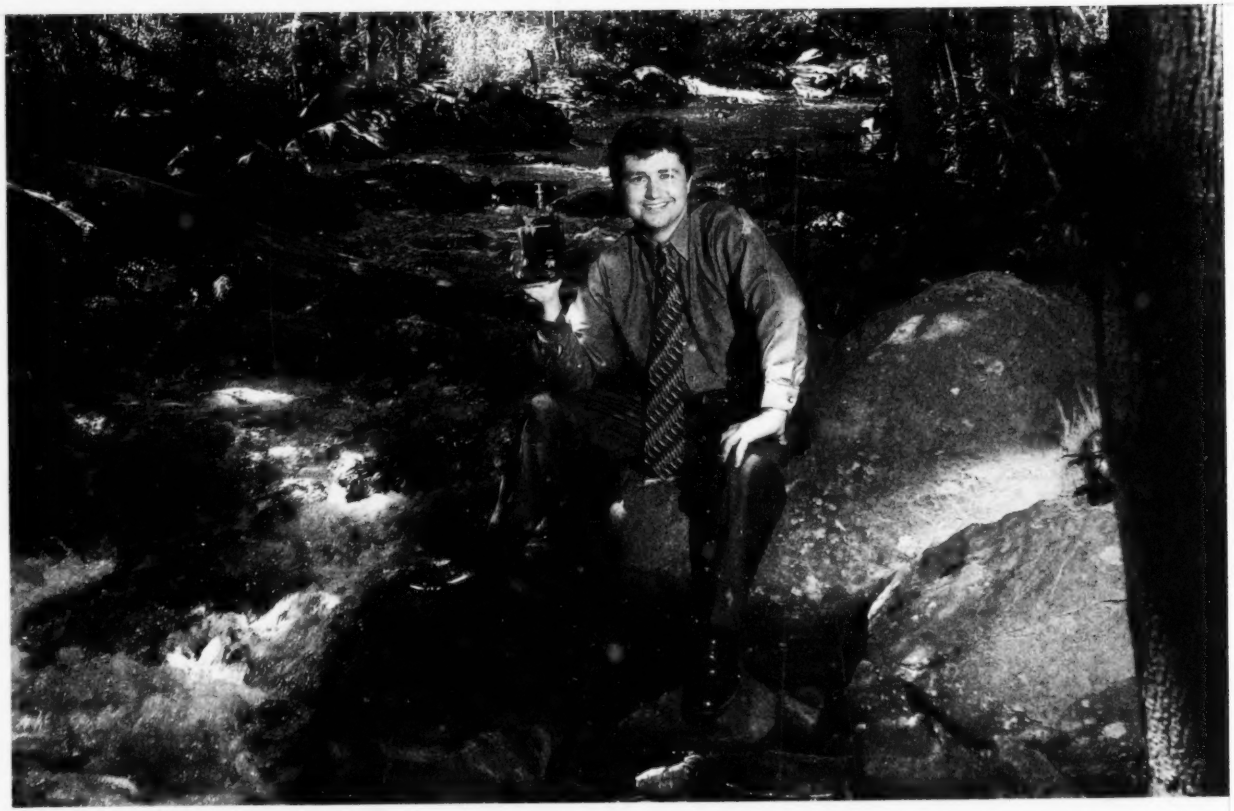
Understanding the needs of the local business community is an integral part of the process. More than 470 companies were consulted last year as part of the Advisory Team's visitation program. During these visits the team identified opportunities to assist companies to expand and provide referrals. In addition to providing valuable advice, the Business Advisory Team gathered feedback on business climate issues that complemented NSBI's fall 2002 survey findings.

With assistance from the Business Advisory Team, NSBI also launched the Regional Business Case Analysis project to better understand local priorities related to investment attraction and the assets of rural communities throughout Nova Scotia. Business leaders and representatives from regional development groups participated in the analysis which further served to increase awareness of NSBI's role.

ACTIVITY HIGHLIGHTS

- Met with 473 companies province-wide through its proactive visitation program.
- Participated in Small Business Week activities in a number of communities throughout the province.
- 1,000 business meetings and presentations to economic development partners and community organizations.
- Developed an assessment survey to measure the value of the business visitation program. More than 95% of companies visited responded positively.

BAT (Business Advisory Team) Territories



When you introduce a product in a new market and it sells out within a few weeks, you know you have a great product on your hands. For Glenora Distilleries, based in Glenville, Cape Breton, the success of its premium eight-year-old single malt whiskey, Glen Breton Rare, was phenomenal. Already, Glen Breton Rare has successfully gained market entry in Japan, Iceland, Bermuda, Germany and the western United States.

When Glenora Distilleries wanted to gain entry into the highly competitive Tri-State area, an NSBI Business Advisory representative was there to assist the company in developing a strong export market strategy. To date, the company is turning export plans into action and is optimistic about its success.

" Breaking into the New York and area market is critical for us. NSBI's Business Advisory representative was extremely beneficial in helping us put together the relevant market information required to obtain advertising financing."

Lauchie Maclean
PRESIDENT, GLENORA DISTILLERIES

FINANCIAL SERVICES

STRATEGIC GOAL

PROVIDE ACCESS TO CAPITAL FOR NEW AND EXISTING BUSINESSES IN NOVA SCOTIA TO ENHANCE VALUE-ADDED GROWTH FOR THE PROVINCE'S ECONOMY.

FINANCING APPROVED:

AGRICULTURAL ENTERPRISES LIMITED	$ 100,000
APPLE VALLEY FOODS INC. (2 AUTHORIZATIONS)	1,150,000
CANADIAN SAILING EXPEDITION INC.	2,000,000
CHITOGENICS LIMITED	1,000,000
DIAPHONICS INC.	500,000
ECRM NETWORKS INC.	250,000
EPC INDUSTRIES LIMITED	3,000,000
HIGHLAND HEIGHTS INN LIMITED	67,000
HOLDRIGHT LUMBER PRODUCTS LIMITED	65,500
IMP GROUP INTERNATIONAL INC.	5,000,000
LAURIE'S MOTEL LIMITED	45,000
NAVITRAK INTERNATIONAL CORPORATION	150,000
NUAIR VENTILATION LIMITED	480,000
OCEANSTONE INN & COTTAGES LIMITED	85,000
OXFORD FROZEN FOODS LIMITED	1,500,000
SCOTIA SLATE PRODUCTS LIMITED	250,000
WAVELENGTH HOVERCRAFT SERVICES LIMITED	50,000
	$13,642,500

Sound Solutions, Strong Prospects

The Opportunities

86% of Nova Scotia businesses plan to increase sales in 2003

52% of Nova Scotia businesses intend to launch a new product or service in 2003

47% of Nova Scotia businesses will invest in new facilities in 2003

The Challenge

66% of Nova Scotia firms believe gaining access to capital is difficult

NSBI commissioned survey of businesses and public, fall 2002.

Capital fuels growth, innovation, and competitiveness, yet many Nova Scotian businesses continue to face challenges obtaining growth capital. Recent uncertainty in financial markets combined with the need for financial institutions to minimize risk and increase shareholder returns, continues to shrink the availability of capital. NSBI is conscious of this reality for Nova Scotia businesses and over the last year identified ways to increase access to the capital needed for business to grow.

NSBI understands that businesses require different types of capital – equity, subordinated debt, term debt or working capital – depending on their stage of growth. Therefore, NSBI customized financial solutions to meet clients' needs, while filling financing gaps in the marketplace, often in partnership with other financial institutions.

During the past fiscal year, NSBI introduced more rigor and consistency into its financing approach by standardizing the evaluation of financing proposals and implementing a risk-rating system to guide decision-making. NSBI targeted businesses with strong growth prospects, a solid management team and a significant commitment by the owners. This approach ensures that the businesses we finance offer the greatest opportunity for generating a positive return on investment for all Nova Scotians.

NSBI's portfolio reflected investments in communities throughout the province and in diverse industries. By the end of the fiscal year, the Nova Scotia Business Fund, managed by NSBI, consisted of 230 clients with investments totalling $180 million. This portfolio generated interest income of $12.7 million.

NSBI authorized new investments for 17 companies totalling $13.6 million during the past year. Seventy-five percent of the companies financed were operating in NSBI's strategic sectors: Life Sciences, Manufacturing, Learning, Energy, and Information Technology.

To further help entrepreneurs understand their growth potential and available financing options, NSBI launched the Capital Ideas Roadshow – a series of seven practical, hands-on information sessions held throughout the province. NSBI also announced the development of a small business lending program. This program will be launched during the fiscal year of 2003/04.

e-CRM had a great idea: provide contact centre solutions via a managed and hosted model including remote dialing technologies for small mid-sized centers throughout the province and beyond. But as a new venture, the company had difficulty accessing the capital needed to invest in the technology for their start-up. After assessing the company's financial needs, NSBI not only authorized some of the necessary financing, but helped initiate discussions with rural-based companies like Hebb Marketing from Truro. The partnership was a success. Using technology provided by e-CRM, Hebb Marketing is operating a 70-person customer contact centre.

" The start-up costs were huge, but NSBI was able to help us by providing a loan with more realistic flexibility than you would find with other financing institutions. We've found NSBI to be helpful in many ways: helping drive our business agenda and developing business opportunities that are continuing steady and sustainable growth."

Bill Ronalds
PRESIDENT OF OPERATIONS AND CLIENT SERVICES, e-CRM

ACTIVITY HIGHLIGHTS

- Authorized $13.6 million for 17 companies in communities throughout the province through the Nova Scotia Business Fund.
- Generated a leverage ratio of $1:$1.33. For every dollar invested in companies NSBI attracted an additional $1.33 in investment from other private or public financial institutions.
- Invested $500,000 in Diaphonics, an award winning software company with a niche in speech recognition and voice security systems.
- Invested $1 million in Chitogenics Ltd., a biotech firm specializing in biomaterial devices. This represents NSBI's contribution to a $2.5 million financing round.
- Invested $1,150,000 in Apple Valley Foods Inc. to support increased export activity to the United States.

PARTNERSHIP AND PROMOTION

STRATEGIC GOAL

INCREASE THE VISIBILITY AND RECOGNITION OF NOVA SCOTIA – ITS BUSINESS CLIMATE, ADVANTAGES AND CAPABILITIES – HERE AND ABROAD

Strong Alliances, Recognized Brand

PARTNERSHIPS

Growing and attracting business is not solitary work, it requires cooperation with companies and organizations here and abroad. With partners NSBI is able to deliver effective and beneficial services to clients. These partnerships also expand NSBI's reach and help promote Nova Scotia and its businesses. At NSBI, we take collaboration seriously.

Examples of partnerships at work:

- Sponsored the International Business Summit in Sydney with Enterprise Cape Breton and the Cape Breton Board of Trade. This summit attracted CEOs worldwide to hear about doing business in Nova Scotia.
- Joined forces with the Information Technology Industry Alliance of Nova Scotia (ITANS) to develop and distribute the *Information and Communication Technology Industry Directory*, the first public directory of its kind in the history of Nova Scotia. The directory provides a comprehensive list of Nova Scotia's technology companies, helping them to effectively promote the industry and increase business in the province.
- Formalized an alliance with the Nova Scotia Community College and Aliant to develop the best possible business solution for companies considering investing in the province. This brings the three organizations together as a marketing force in communications and IT industries.
- Created a Business Advisory Council in Toronto whose members are successful business executives. Many are Nova Scotian ex-patriots or have an affinity for the Province. They offer advice on local markets, insights on corporate priorities and objective feedback on NSBI strategy.

PROMOTION

It is not enough to have strong businesses and a strong economy. Nova Scotia's strengths in business must be recognized and aggressively promoted. Building awareness about Nova Scotia, its business advantages and our commercial opportunities is a priority at NSBI. Promotion and sponsorship create awareness of the services NSBI offers to businesses.

Activities during 2002-03 included:

Junior Achievement Company Program
Glow Warms, Lunenburg, NS

Canadian Onshore/Offshore Resources Exhibition and Conference

Small Business Week activities at locations throughout the province

Enterprise Cape Breton and Cape Breton Board Of Trade's International Business Summit, 2002

Canada-New England Energy Trade and Technology Conference, Boston

Canada-New England Technology Trade and Investment Conference, Boston

2002 Export Achievement Awards

Open To The World, a magazine of business in NS that is distributed to thousands of companies globally

Strong Team, Solid Expertise

100% of NSBI employees believe that the work they do is important.*

* NSBI internal employee survey.

IN THE ORGANIZATION

One of the greatest strengths NSBI has to offer the province's business community is the experience, enthusiasm, and skill of its people. NSBI has built a strong, 63 member business-focused team with backgrounds in financial services, business development and sales/marketing – a group of professionals who understand the value of their work to the Nova Scotia economy.

An important aspect of building confidence and empowering NSBI employees is encouraging staff to take advantage of training and personal development programs. More knowledgeable employees mean increased organizational performance and creative thinkers. Innovative thinkers. This past fiscal year, 73% of NSBI employees pursued training and professional development opportunities ranging from business retention and expansion certification to financial negotiation seminars.

Ensuring job satisfaction is also important to NSBI. Employee satisfaction is achieved by encouraging an atmosphere where employees feel comfortable providing honest feedback. NSBI continued to encourage open communication with employees and provided many opportunities for staff to understand the direction of the organization through regular staff meetings.

To better understand areas for improvement, the President and CEO hosted employee roundtable sessions and an internal employee survey was conducted. As a result, NSBI focused on internal communications by developing a newsletter, planning for an intranet site and developing team building opportunities. NSBI also implemented a performance appraisal system to further encourage communication and the achievement of corporate goals. To recognize employees for outstanding achievement, a peer-nominated, quarterly President and CEO Award was launched.

IN THE COMMUNITY

NSBI employees believe it is important to give back to their community and they do so in many ways. NSBI employees actively participated in the 2002 Dragon Boat Festival, a race in support of the Nova Scotia Amateur Sport Fund. Many NSBI employees laced up their running shoes to make a difference and help combat breast cancer during the 2002 CIBC Run for the Cure. Whether it's lining up for the Canadian Blood Services Life Bus, or donating Casual Friday collections to a local charity, at NSBI, generosity knows no bounds.

OUR EMPLOYEES

STRATEGIC GOAL

DEVELOP AN ACTION-ORIENTED, CLIENT-FOCUSED ORGANIZATIONAL CULTURE THAT ENCOURAGES, EMPOWERS AND SUPPORTS HIGH PERFORMANCE, ENTREPRENEURIAL THINKING AND PROFESSIONALISM.

CORPORATE GOVERNANCE

In April 2001, a 13-member Board of Directors was appointed to provide leadership and overall strategic direction for Nova Scotia Business Inc. Board members are private sector business leaders from various industries and represent regions throughout the province. Board responsibilities include:

- Developing an appropriate corporate governance framework;
- Overseeing the strategic planning process;
- Monitoring the annual business planning process;
- Identifying and monitoring major risks facing the corporation;
- Monitoring the integrity of the corporation's internal control systems;
- Approving financial transactions within board limits.

Three committees have been established to assist the Board in carrying out its responsibilities: Audit Committee, Human Resources/Corporate Governance Committee, and Investment Committee.

CHAIR

F. Thomas Stanfield

VICE-CHAIR

Tom Rose

AUDIT COMMITTEE

Jim Sapp (Chair); Alastair MacLeod; Maurice Guitton

The Audit Committee is responsible for overseeing the corporation's financial reporting, assessing the corporation's internal controls and risk environment, as well as overseeing the activities of NSBI's external auditor.

HUMAN RESOURCES GOVERNANCE COMMITTEE

Dr. Sheila Brown (Chair); Larry LeBlanc; Keith Boulter

The HR/Governance Committee is responsible for ensuring that appropriate HR management policies are in place, managing the recruitment process for new Board members as well as developing and overseeing the organization's corporate governance principles.

INVESTMENT COMMITTEE

Tom Rose (Chair); Grace White; John Risley; Jim Gogan; Paul Kent

The Investment Committee is responsible for overseeing NSBI's investment framework and policies, monitoring the performance of the corporation's investment portfolio as well as approving financial transactions within its authorizing limit or recommending transactions to the full Board for approval.

BOARD MEMBERS

KEITH BOULTER of Bridgewater, President and CEO, ECI Medical Technologies

SHEILA BROWN of Halifax, President and Vice-Chancellor, Mount Saint Vincent University

JIM GOGAN of Stellarton, Former President and CEO, Empire Co.Ltd.

MAURICE GUITTON of Lunenburg, President, Composites Atlantic Ltd.

PAUL KENT of Halifax, Senior Vice-President, Fujitsu Consulting

LARRY LEBLANC of Halifax, Vice-President, East Coast Region, Encana Corp.

BOB MACKAY of Halifax, CEO, Nova Scotia Office of Economic Development

ALASTAIR MACLEOD of Sydney, Past-President, Sydney and Area Chamber of Commerce

JOHN RISLEY of Chester, President, Clearwater Fine Foods

TOM ROSE of Halifax, Chair and CEO, TAR Investments

JAMES SAPP of Liverpool, President, J.A.S. Investments

TOM STANFIELD of Truro, President, Stanfield's Ltd.

GRACE WHITE of Dartmouth, President and CEO, Canjam Trading Ltd.

OFFICERS

STEPHEN LUND, President and CEO

KELLIANN DEAN, Vice-President, Business Development

PATRICK RYAN, Vice-President, Financial Services

CHRISTOPHER SMITH, Vice-President, Corporate Services

FINANCIAL STATEMENTS OF NOVA SCOTIA BUSINESS INCORPORATED

YEAR ENDED MARCH 31, 2003

Management's Responsibility for Financial Reporting

The accompanying financial statements of Nova Scotia Business Inc. have been prepared by management in accordance with Canadian generally accepted accounting principles and, if necessary, contain certain items that reflect best estimates and judgment of management. The integrity and objectivity of the data in these financial statements are management's responsibility. Management is responsible for ensuring that all information in the Annual Report is consistent with the financial statements.

In support of its responsibility, management has developed and maintains financial and management control systems and practices to provide reasonable assurance that transactions are properly authorized and recorded, that financial information is reliable, that the assets are safeguarded and liabilities recognized, and that the operations are carried out effectively.

The Board of Directors' Audit Committee, comprised of non-management directors, oversees management's responsibilities for financial reporting. The Audit Committee meets regularly with management, compliance & risk management, and the independent auditors to review internal accounting controls, audit results, accounting principles and practices, and to review and approve the financial statements.

These financial statements have been audited by the corporation's external auditors, KPMG LLP, and their report is presented herein.

Stephen Lund
President and
Chief Executive Officer

Christopher H.C. Smith, C.A.
Vice President,
Corporate Services

Auditors' Report to the directors

We have audited the balance sheet of Nova Scotia Business Incorporated as at March 31, 2003 and the statements of revenue, expenditures and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The balance sheet for March 31, 2002 was reported on by the Auditor General of Nova Scotia.

KPMG LLP
Chartered Accountants

Halifax, Canada
May 27, 2003

BALANCE SHEET

(IN THOUSANDS OF DOLLARS)

MARCH 31, 2003, WITH
COMPARATIVE FIGURES FOR 2002

	2003	2002
ASSETS		
Current assets:		
Cash	$ 9,243	$ 100
Accrued interest receivable	792	–
Due from the Province of Nova Scotia	8,654	7,505
Other receivables	562	5
	19,251	7,610
Nova Scotia Business Fund assets:		
Loans receivable (notes 3 and 7)	119,958	123,053
Equity investments (notes 4 and 7)	7,098	8,995
Industrial Parks and malls (note 5)	4,742	4,965
Other assets (notes 6 and 7)	119	136
	131,917	137,149
	$ 151,168	$ 144,759
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 10,905	$ 7,610
Provision for payment of guarantees (note 7)	2,596	3,509
Principal due within one year to the Province of Nova Scotia	13,284	15,480
	26,785	26,599
Long-term debt:		
Due to the Province of Nova Scotia (note 8)	114,142	118,160
Equity (note 9):		
Retained earnings	10,241	–
Commitments (note 11)		
Contingencies (note 12)		
	$ 151,168	$ 144,759

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

Approved on behalf of the Board:

Director

Director

STATEMENT OF REVENUE, EXPENDITURES AND RETAINED EARNINGS

(IN THOUSANDS OF DOLLARS)

YEAR ENDED MARCH 31, 2003, WITH COMPARATIVE FIGURES FOR 2002

	2003	2002
		(UNAUDITED)
REVENUE:		
Provincial grants:		
Operating grant	$ 6,600	$ 5,426
Strategic investment grant	15,126	13,567
Valuation allowance grant	3,874	4,147
Interest on loans receivable	11,675	–
Other interest income	754	–
Gain on disposal of Industrial Parks	2,127	–
Miscellaneous	246	–
	40,402	23,140
EXPENDITURES:		
Operating expenses (Schedule 1)	6,595	4,971
Strategic investments	15,126	13,567
Provision for credit losses and payment of guarantees	5,965	4,147
Nova Scotia Business Fund expenses (Schedule 2)	2,475	455
	30,161	23,140
Excess of revenue over expenditures	10,241	–
Retained earnings, beginning of year	–	–
Retained earnings, end of year	$ 10,241	$ –

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS

(IN THOUSANDS OF DOLLARS)

YEAR ENDED MARCH 31, 2003, WITH COMPARATIVE FIGURES FOR 2002

	2003	2002
		(UNAUDITED)
CASH PROVIDED BY (USED IN):		
OPERATIONS:		
Excess of revenue over expenditures	$ 10,241	$ –
Add (deduct) items not involving cash:		
Amortization	256	–
Capitalized interest on loans receivable	(2,613)	–
Gain on sale of Industrial Parks	(2,127)	–
Change in non-cash working capital:		
Increase in accrued interest receivable	(790)	–
Increase in due from Province of Nova Scotia	(1,149)	(7,505)
Increase in other receivables	(557)	(5)
Increase in accounts payable and accrued liabilities	3,295	7,610
	9,167	100
INVESTMENTS:		
Loan advances	(14,707)	–
Principal received on loans	15,739	–
Redemption of shares	454	–
Issue of convertible debentures	(750)	–
Proceeds from disposal of Industrial Parks	3,174	–
Provision for credit losses and payment of guarantees	5,965	–
Transfer of investments from Nova Scotia Business Development Corporation Fund	–	(133,640)
Other	(69)	–
	9,806	(133,640)
FINANCING:		
New borrowings from the Province of Nova Scotia	9,365	133,640
Principal repayment to the Province of Nova Scotia	(15,579)	–
	(6,214)	133,640
Increase in cash	9,759	100
Cash, beginning of year	100	–
Cash, end of year (note 15)	$ 9,859	$ 100

CASH POSITION IS DEFINED AS CASH AND SHORT-TERM INVESTMENTS.
SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

NOTES TO FINANCIAL STATEMENTS

(IN THOUSANDS OF DOLLARS)

YEAR ENDED MARCH 31, 2003

Nova Scotia Business Incorporated is a corporation, wholly-owned by the Province of Nova Scotia with an independent Board of Directors. The Corporation was established pursuant to the Nova Scotia Business Incorporated Act, Chapter 30 of the Acts of Nova Scotia, 2000. The Corporation's mission is to deliver client-focused business solutions that result in sustainable, value-added economic growth for Nova Scotia.

1. Summary of significant accounting policies:

(a) Loans receivable:

Loans receivable are recorded at cost less a general allowance for credit losses equal to 5% of cost. In addition, a specific allowance is recorded if management considers it necessary to reduce the loan to its estimated recoverable amount.

(b) Equity investments:

Equity investment are initially recorded at cost less a general allowance for credit losses equal to 10% of cost. This allowance is immediately recorded to reflect the increased risk associated with equity investments. The investments are reviewed annually for potential declines in value – if a decline is considered to be other than temporary, a specific allowance is recorded.

(c) Industrial Parks and malls:

The Industrial Parks consist of properties held for sale and improved properties consisting of land and land improvements, buildings, wharves and utilities. Land is recorded at the lower of cost and estimated net realizable value. The remaining assets are recorded at cost and amortized on a declining balance basis over their estimated useful lives as follows:

ASSET	RATE
Land improvements	5%
Industrial malls and other buildings	5%
Wharves	5%
Utilities	15%

The Department of Transportation and Public Works has operational responsibility for the Industrial Parks. Certain revenues and expenses associated with the operation of the Industrial Parks are accounted for by the Department of Transportation and Public Works and are not reflected in these financial statements.

(d) Revenue recognition:

Interest revenue on loans receivable is recognized on an accrual basis unless the ultimate collectibility of the loan is in doubt. When a loan is classified as impaired, interest revenue is no longer recognized, and any interest income that is accrued is reversed. A loan is considered impaired when there is risk of loss to the Corporation of the full and timely collection of principal and interest; generally, when it is more than three months in arrears.

(e) Allowance for credit losses and provision for payment of guarantees:

As financing is advanced, the Corporation immediately records a general allowance equal to 5-10% of the amount disbursed. In addition, the Corporation provides for possible credit losses on an item-by-item basis by examining such factors as the client's financial condition and the fair value of the underlying security.

The provision for credit losses is partially offset by funding from the Province of Nova Scotia in the form of a Valuation Allowance Grant.

(f) Use of estimates:

The preparation of the financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

2. Fair values of financial instruments:

Financial assets and financial liabilities:

The carrying values of cash, accrued interest receivable, other receivables, accounts payable, accrued interest payable, principal due within one year on loans receivable and due from Province of Nova Scotia approximates their fair values because of their short-term to maturity.

The fair values of loans receivable approximate their net realizable value.

Equity investments, loan guarantees and other assets represent investments and guarantees in privately held companies, as well as property acquired through foreclosure. Due to the limited amount of comparable market information available it was not practical to determine the fair value of these assets.

Due to the Province of Nova Scotia is comprised of a series of separate notes, the largest of which has no set terms of repayment. Principal is repaid to the Province as it is collected on the loans receivable financed by this note. Due to the volume of accounts financed by this note and the uncertainty with respect to timing of future cash flows, it is not practical to determine the fair value of the amount due to the Province of Nova Scotia.

3. Loans receivable:

	2003	2002
(a) Principal due:		
Performing loans	$ 142,015	$ 139,681
Impaired loans	26,850	24,752
	168,865	164,433
Allowance for credit losses (note 7)	48,907	41,380
	$ 119,958	**$ 123,053**

Included in the above loans receivable are loans with concessionary terms which have principal amounts outstanding of $938 (2002 - $1,108) and concessionary allowance of $262 (2002 - $350). The concessionary terms consist of interest free financing.

The concessionary allowance is calculated as the difference between the financing advances and the net present value of the anticipated future repayments at an interest rate similar to the usual established terms of the Corporation.

(b) Principal payments receivable in each of the next five years are as follows:

2004	$ 13,420
2005	12,108
2006	11,803
2007	22,437
2008	22,320

4. Equity investments:

	2003	2002
Common shares	$ 3,123	$ 3,123
Preferred shares	6,718	9,570
Convertible debentures	1,250	500
	11,091	13,193
Allowance for credit losses (note 7)	3,993	4,198
	$ 7,098	**$ 8,995**

Included in the above preferred shares are shares with concessionary terms which have principal amounts outstanding of nil (2002 - $3,398) and concessionary allowances of nil (2002 - $1,496). The concessionary terms consisted of no set dividend rate.

The concessionary allowance is calculated as the difference between the financing advances and the net present value of the anticipated future repayments at an interest rate similar to the usual established terms of the Corporation.

The convertible debentures matured before year-end. No action has been taken by the Corporation to demand repayment or to exercise the conversion options inherent in the debentures. The terms of one debenture were amended subsequent to year-end to extend the maturity date to 2005. For the remaining debentures management is negotiating with the companies to extend the maturity dates.

5. Industrial parks and malls:

			2003	2002
	Cost	Accumulated amortization	Net book value	Net book value
Land	$ 269	$ —	$ 269	$ 188
Land improvements	957	217	740	780
Industrial malls and other buildings	5,515	2,649	2,866	3,056
Wharves	487	246	241	283
Utilities	1,593	967	626	658
	$ 8,821	**$ 4,079**	**$ 4,742**	**$ 4,965**

6. Other assets:

	2003	2002
Property acquired through foreclosure, at cost	$ 965	$ 976
Less allowance for losses (note 7)	846	840
	$ 119	**$ 136**

NOTES TO FINANCIAL STATEMENTS

(CONTINUED)

7. Allowance for credit losses and provision for payment of guarantees:

	2003			
	Gross balance outstanding	Specific allowance	General allowance	Total allowance
Loans receivable (note 3)	$ 168,865	$ 43,292	$ 5,615	$ 48,907
Equity investments (note 4)	11,091	7,704	289	7,993
Guarantees (note 12)	4,301	2,519	77	2,596
Other assets (note 6)	965	840	6	846
	$ 185,222	$ 50,355	$ 5,987	$ 56,342

	2002			
	Gross balance outstanding	Specific allowance	General allowance	Total allowance
Loans receivable (note 3)	$ 164,433	$ 35,525	$ 5,855	$ 41,380
Equity investments (note 4)	11,194	3,935	263	4,198
Guarantees (note 12)	6,079	3,340	169	3,509
Other assets (note 6)	976	840		840
	$ 184,681	$ 43,640	$ 6,287	$ 49,927

8. Due to Province of Nova Scotia:

(a) Notes payable to the Province of Nova Scotia are comprised of the following:

			2003	2002
	Year of maturity	Weighted average interest rate	Principal outstanding	Principal outstanding
Note payable 2002-01	2012	–	$ 90,098	$ 105,297
Note payable 2002-02	2021	6.45%	30,964	28,043
Note payable 2003-01	2008	4.85%	2,974	–
Note payable 2003-02	2008	4.53%	734	–
Note payable 2003-03	2012	5.02%	410	–
Note payable 2003-04	2014	5.35%	1,233	–
Note payable 2003-05	2011	5.44%	1,005	–
			127,426	133,640
Less principal due within one year			13,284	15,480
			$ 114,142	$ 118,160

(b) Principal payments due in each of the next five years are as follows:

2004	$ 13,284
2005	11,987
2006	11,666
2007	22,509
2008	22,410

9. Share capital:

The Corporation has authorized 100 Class A common shares with a par value of $1 each. 100 common shares have been issued to the Province of Nova Scotia.

10. Nova Scotia Business Fund:

The Nova Scotia Business Fund (the "Fund") is comprised of investments approved under the direction and management of Nova Scotia Business Incorporated and investments transferred from the Nova Scotia Business Development Corporation Fund on November 6, 2001. The following is a summary of the Fund as at March 31,

	2003	2002
Assets:		
Nova Scotia Business Incorporated portfolio	$ 8,391	$ 500
Less allowance for credit losses	938	25
	7,453	475
Financing authorized but unadvanced (note 11)	7,439	1,765
	14,892	2,240
Nova Scotia Business Development Corporation portfolio	177,272	183,067
Loan guarantees (note 12)	4,301	6,079
Less allowance for credit losses	55,404	49,902
	126,169	139,244
Financing authorized but unadvanced (note 11)	9,746	17,720
	135,915	156,964
	$ 150,807	$ 159,204
Funding authorized and committed:		
Fund balance authorized, net of write offs	$ 273,106	$ 273,106
Less uncommitted balance of fund	65,957	63,975
Committed fund balance	207,149	209,131
Less allowance for credit losses and payment of guarantees	56,342	49,927
	$ 150,807	$ 159,204

11. Commitments:

(a) The Corporation has approved financing of $17,185 (2002 - $19,485) that is undisbursed at year-end.

(b) The Corporation administers strategic investments on behalf of the Province of Nova Scotia that permit approved businesses to receive a percentage of payroll taxes paid as a rebate. Expenses incurred by Nova Scotia Business Inc. are match-funded by the Province of Nova Scotia in the form of a Strategic Investment Grant. As at March 31, 2003, transactions were approved with maximum annual payments over the next six years of $58.95 million. In addition, transactions totaling $18.3 million over the next six years received Executive Council approval after year-end. These transactions are included in the maximum annual payments shown below.

2004	$ 18,764
2005	18,624
2006	16,553
2007	12,529
2008	9,502
2009	1,274

12. Contingencies:

	2003	2002
(a) Loan guarantees	$ 4,301	$ 6,079
Less provision for payment (note 7)	2,596	3,509
	$ 1,705	$ 2,570

(b) Litigation:

The Corporation is a co-defender with the Province of Nova Scotia and Industrial Estates Limited in a dispute regarding environmental contamination on land previously owned by Industrial Estates Limited. Any losses incurred related to this claim will be fully funded by the Province of Nova Scotia.

Counsel is unable to form an opinion at this early date in regard to the likelihood of loss; consequently, no provision for any possible loss has been recorded in these financial statements.

NOTES TO FINANCIAL STATEMENTS

(CONTINUED)

13. Credit risk and interest risk:

(a) Credit risk:

Credit risk is the risk that a debtor may not pay amounts owing, thus resulting in a loss. To mitigate this risk, the Corporation has developed the following policies:

Before a loan is approved, a risk assessment is performed on the client. Each loan is designated a risk rating based on the industry and business, quality of management, financial history and projections, other investors' level of financial involvement, ability of the client to access funds elsewhere, and any environmental risks. Applications with a high risk rating would warrant a higher interest rate or would not be approved if the level of risk is deemed unacceptable.

Clients are limited to a total of $15 million in financing from Nova Scotia Business Incorporated's Nova Scotia Business Fund. Two clients currently exceed this total; their loans were approved in the Nova Scotia Business Development Corporation Fund and transferred to the Nova Scotia Business Fund via legislation on November 6, 2001. The outstanding amounts for these clients are approximately $40 million and $20 million, respectively.

In addition to its regular monitoring procedures, at year-end, management performed an in-depth analysis of a number of accounts representing approximately 90% of the gross portfolio outstanding in order to assess the Corporation's total exposure to credit and other risk. Factors such as the financial condition of the client were evaluated to determine how risk has changed since inception of the loan. Changes in risk are reflected in the carrying value of the loan via the provision for credit losses.

(b) Interest risk:

Interest rate risk is the impact future changes of interest rates have on cash flows and fair value of assets and liabilities. To mitigate this risk, the Corporation matches the repayment timing of amounts borrowed with the repayment timing of financing advanced as closely as practical.

Outstanding investments totaling $90,098 (2002 - $105,597) were funded by an interest free long-term note payable to the Province of Nova Scotia.

14. Taxes:

The Corporation is not subject to provincial or federal taxes.

15. Supplementary cash information:

During the year, cash received for interest income was $9,088 (2002 – nil) and cash paid for interest was $1,931 (2002 – nil).

16. Related party transactions:

Financing has been advanced to companies which are controlled or otherwise not independent of certain directors of Nova Scotia Business Incorporated. These investments total $29,824 (2002 - $27,072) and certain of these investments have allowances recorded against them totaling $8,844 (2002 - $5,714).

These transactions were originally approved by the Board of the Nova Scotia Business Development Corporation and have been carried out in the normal course of operations and on terms and conditions that would be similar to those of non-related parties.

17. Comparative figures:

The prior year balance sheet was audited by the Auditor General; however, subsequent to the audit, the financial statements were restated to reflect the addition of the amount due to the Province of Nova Scotia of $133,640. Also, the Industrial Parks balance was restated to become more compliant with Canadian generally accepted accounting principles, as in the past they were accounted for as investments. The restatement resulted in a write down of the Industrial Parks balance of $16,728 and was reflected as such in the consolidated statements of the Province of Nova Scotia as at March 31, 2002.

The comparative statement of revenue, expenditures and retained earnings and the statement of cash flows were not reported on by the Auditor General and are presented as unaudited.

Legislation enacting Nova Scotia Business Incorporated came into effect November 6, 2001. Operating expenses, Strategic Investments, and the related Provincial Grants for the twelve months ended March 31, 2002 were recorded in the accounts of Nova Scotia Business Incorporated. The provision for credit losses reflects activity during the period November 6, 2001 to March 31, 2002. Income from Nova Scotia Business Fund activity for the year ended March 31, 2002 was reported in the accounts of the Department of Finance of the Province of Nova Scotia.

The 2002 figures have been reclassified where necessary to conform to 2003 presentation.

SCHEDULE 1

SCHEDULE OF OPERATING EXPENSES

(IN THOUSANDS OF DOLLARS)

YEAR ENDED MARCH 31, 2003, WITH COMPARATIVE FIGURES FOR 2002

	2003	2002
		(UNAUDITED)
Legal and audit	$ 185	$ 244
Business Development	905	680
Office expenses	224	169
Other	100	134
Salaries and benefits	4,309	3,164
Telecommunications and technical support	368	292
Travel	504	288
	$ 6,595	$ 4,971

SCHEDULE 2

SCHEDULE OF NOVA SCOTIA BUSINESS FUND EXPENSES

(IN THOUSANDS OF DOLLARS)

YEAR ENDED MARCH 31, 2003, WITH COMPARATIVE FIGURES FOR 2002

	2003	2002
		(UNAUDITED)
Amortization	$ 256	$ 189
Commissions	46	–
Interest	1,931	–
Repairs and maintenance	242	266
	$ 2,475	$ 455

Nova Scotia **Business** Inc.

NEW BUSINESS THINKING

1800 Argyle Street, Suite 520
PO Box 2374
Halifax, Nova Scotia, Canada
B3J 3E4

Tel 1.902.424.6650
Fax 1.902.424.5739
Toll-free in Nova Scotia 1.877.297.2124
Toll-free in North America 1.800.260.6682 (NOVA)
Email nsbi@gov.ns.ca

www.novascotiabusiness.com